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India

Coffee

Annual

2002

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Report Highlights:

Unattractive prices continue to depress Indian coffee production. Exports fell 13 percent in CY 2001, and expected to decline another 10 percent this year.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
New Delhi [IN1], IN

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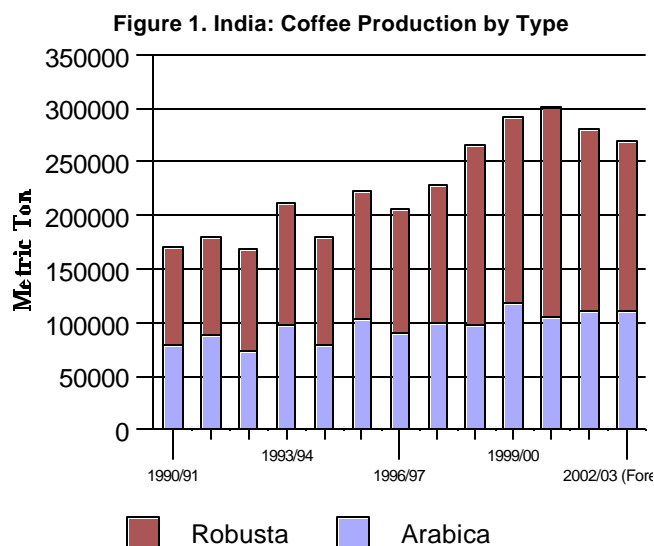
PRODUCTION

Indian coffee production is likely to decline for the second consecutive year in 2002/03. Output is forecast at 270,000 tons (4.5 million bags of 60 kg), comprised of 110,000 tons arabica and 160,000 tons robusta. Uneven showers during blossoming, a cutback in fertilizer and other input use, higher pest/disease incidences, and poor management practices (due to meager returns) are expected to lower yields and reduce quality. There is also likely to be a marginal shift in acreage to crops such as cardamom, vanilla, and oranges in some robusta areas because of better returns. A major shift to other crops is, however, unlikely given the capital intensive nature of coffee production. Although the Coffee Board is currently estimating 2001/02 production at 300,600 tons (5 million bags), there are indications that this is likely to be lowered to about 280,000 tons (4.7 million bags).

India produces arabica (grown at elevations of 1000-1500 meters) and robusta (grown at 500-1000 meters) in the ratio of approximately 40:60. Production is mostly confined to the three southern states of Karnataka (58 percent), Kerala (24 percent) and Tamil Nadu (9 percent). It is typically grown under the shade of trees, and inter-cropping with crops such as pepper and oranges is common in robusta areas. Of 156,800 total coffee holdings, 98 percent are small (less than 10 hectares). There are only 105 holdings of 100 hectares or more. Although the Coffee Board is advocating a shift from robusta to arabica based on recommendations by a McKinsey study, industry sources consider a large shift infeasible. Recently India entered the arena of speciality coffees, with special focus on "Estate Branded," which is said to have unique cup quality characteristics. Due to growing domestic and export demand, the production of instant and other soluble coffees is increasing, and capacity is expanding.

India has 68 licensed, privately owned, well-equipped curing/processing plants. The quality standards issued by the Coffee Board are used for the processing of both exported and domestically-consumed coffees.

High 1997 and 1998 coffee prices, along with the liberalization of the coffee trade in the mid-nineties, encouraged growers to invest part of their profits in upgrading plantations, which resulted in a steady growth in production, culminating in a record 2000/01 crop of 301,200 tons (Figure 1). The recent steep decline in coffee prices has, however, eroded profitability and curtailed bank financing, prompting farmers to cut spending on their holdings. This could reduce yields for at least the next few years.

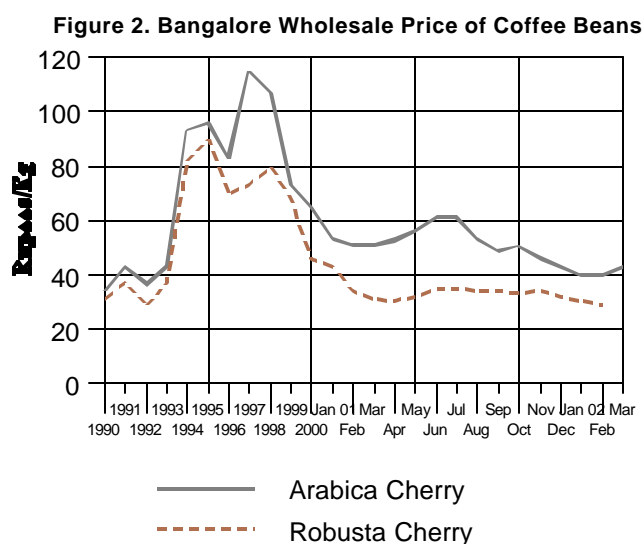


CONSUMPTION

Coffee consumption in India is low at 60,000 tons or 1 million bags (60 grams/year or 0.5 cups per capita/day) and is mostly confined to the southern states of Tamil Nadu and Karnataka (80 percent). Growth in consumption has also been slow. A recent survey commissioned by the Coffee Board revealed that although coffee is used widely in urban India (82 percent, compared with tea at 93 percent) roasted and ground coffee penetration is only 19 percent. Instant coffee is used by 74 percent. While coffee's major competitor has historically been tea, soft drinks and bottled mineral water are posing new challenges.

In the past few years the coffee café culture has spread throughout major cities and seems poised for further growth. This should help lift coffee consumption. Currently there are several large companies offering a wide array of coffee preparations which are becoming popular among high income consumers, especially affluent young people.

In tune with international prices, Indian coffee prices have plummeted in recent months. Indicative Bangalore wholesale prices dipped to rs. 40/kg for Arabica Cherry and rs. 30/kg for Robusta Cherry in February compared with rs. 51 and rs. 34 a year ago, and rs. 115 and rs. 90 in the mid-nineties (**Figure 2**). Prices have improved marginally in recent weeks on reports of a smaller crop in Vietnam.

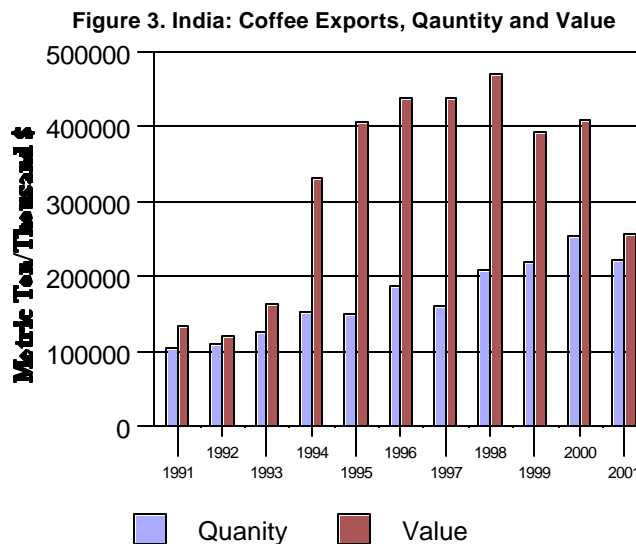


TRADE

India, with a global production share of 4.5 percent, also accounts for about 4.5 of world trade. Although India exports coffee to more than 40 countries, the top six markets are the Russian Federation, Italy, Germany, Belgium, Spain, and the United States. These account for about 70 percent of total exports. After reaching a record 253,524 tons in CY 2000, exports declined to 221,597 tons in CY 2001 and are likely to fall to around 200,000 tons in CY 2002 due to lower production. Export earnings from coffee also plummeted from rs. 16.9 billion (\$410 million) in CY 2000 to rs. 11.3 billion (\$257 million) in 2001 (**Figure 3**). In the first quarter of CY 2002, exports were just 34,277 tons, compared with 80,186 during the same period in 2001. The export of special and value added coffee, however, rose significantly to 45,741 tons (green bean equivalent) in CY 2000 and to 46,649 tons in CY 2001 (including 41,742 of instant). Recently Russia has emerged as a major market for Indian instant coffee, accounting for 88 percent of total exports.

On a marketing year (Oct-Sep) basis, India's coffee exports in 2000/01 were 222,106 tons, compared with 257,618 tons in 1999/00. Exports from October 2001 to March 2002 were 61,528 tons, compared with 104,262 tons during the same period of MY 2000/01.

India's export-oriented coffee units import small quantities of coffee duty free (mostly cheap Vietnamese) for blending and re-export. Imports for domestic consumption are negligible. The hike in the import duty from 70 percent to 100 percent in this year's budget make imports even less feasible.



STOCKS

Following the liberalization of coffee marketing in the mid-nineties, no reliable estimates of stocks are available. According to trade sources, year end stocks are typically around 10,000 tons (170,000 bags). However, 2001/02 ending stocks are estimated at 34,000 tons (560,000 bags), due to lower exports and stagnant consumption. Due to their weak financial positions, processors have no incentive to carry large stocks.

MARKETING

The Coffee Board of India is entrusted with the domestic and international promotion of Indian coffee. In February 2002, the Coffee Board and the United Planters Association of Southern India (UPASI) jointly organized an "India International Coffee Festival" to showcase Indian coffee. The Board also promotes Indian coffee in major overseas exhibitions.

Until 1992/93, coffee marketing was wholly administered and regulated by the Coffee Board. However, following the process of liberalization which started in 1993, all restrictions on coffee marketing were abolished. Due to the dismantling of auctions by the Coffee Board, less than 10 percent of the coffee is now sold through auctions. Most small growers prefer to sell their unprocessed crop directly to exporters or roasters.

Although India is an exporter of coffee, the proliferation of modern espresso coffee cafes in major cities provide an opportunity for US companies to supply products such as syrups, speciality coffees, etc.

POLICY

To provide a relief to the beleaguered coffee industry, the government has provided a rs. 0.50 /kg (\$10.5/metric ton) transportation subsidy to exporters effective January 1, 2002. The subsidy for the first quarter of CY 2002 was recently disbursed.

The Reserve Bank of India (RBI), India's Central Bank, has announced a relief package for the coffee sector which includes the rescheduling of loans and lowering of interest rates.

The state government of Karnataka, the largest coffee producing state, has exempted small and marginal coffee growers (holding of less than 50 acres) from the agricultural income tax.

In this year's budget, the Finance Minister raised the basic import duty on coffee from 70 percent to 100 percent.

TABLES

PSD Table

PSD Table							
Country:	India						
Commodity:	Coffee, Green						
		2001		2002		2003	UOM
	Old	New	Old	New	Old	New	
Market Year Begin		10/2000		10/2001		10/2002	(MONTH/YEAR)
Area Planted	335	346	345	347	0	348	(1000 HA)
Area Harvested	310	314	310	310	0	308	(1000 HA)
Bearing Trees	535	535	535	535	0	535	(1000 TREES)
Non-Bearing Trees	65	65	65	65	0	65	(1000 TREES)
TOTAL Tree Population	600	600	600	600	0	600	(1000 TREES)
Beginning Stocks	20	20	465	363	0	562	(1000 60 KG BAGS)
Arabica Production	1740	1740	2000	1850	0	1800	(1000 60 KG BAGS)
Robusta Production	3280	3280	3000	2800	0	2700	(1000 60 KG BAGS)
Other Production	0	0	0	0	0	0	(1000 60 KG BAGS)
TOTAL Production	5020	5020	5000	4650	0	4500	(1000 60 KG BAGS)
Bean Imports	0	0	0	0	0	0	(1000 60 KG BAGS)
Roast & Ground Imports	0	0	0	0	0	0	(1000 60 KG BAGS)
Soluble Imports	0	0	0	0	0	0	(1000 60 KG BAGS)
TOTAL Imports	0	0	0	0	0	0	(1000 60 KG BAGS)
TOTAL SUPPLY	5040	5040	5465	5013	0	5062	(1000 60 KG BAGS)
Bean Exports	2930	3001	2700	2700	0	2700	(1000 60 KG BAGS)

Roast & Ground Exports	0	1	0	1	0	1	(1000 60 KG BAGS)
Soluble Exports	670	700	700	700	0	700	(1000 60 KG BAGS)
TOTAL Exports	3600	3702	3400	3401	0	3401	(1000 60 KG BAGS)
Rst,Ground Dom. Consum	825	825	850	875	0	900	(1000 60 KG BAGS)
Soluble Dom. Consum.	150	150	175	175	0	180	(1000 60 KG BAGS)
TOTAL Dom. Consumption	975	975	1025	1050	0	1080	(1000 60 KG BAGS)
Ending Stocks	465	363	1040	562	0	581	(1000 60 KG BAGS)
TOTAL DISTRIBUTION	5040	5040	5465	5013	0	5062	(1000 60 KG BAGS)

Note: Product x conversion factor = green bean equivalent

product	conversion factor
soluble coffee	2.6

Export Trade Matrix

Export Trade Matrix			
Country:		Units:	Metric Tons
Commodity:			
Time period:	Jan-Dec	Jan-Mar	
Exports for	2001		2002
U.S.	9,469	U.S.	1,169
Others		Others	
Russian Federation	38,536	Italy	8,042
Italy	40,937	Russian Federation	7,279
Germany	29,557	Germany	6,143
Belgium	17,485	Spain	2,036
Spain	14,201	Japan	1,595
Slovenia	9,810	Slovenia	1,398
Greece	5,608	Belgium	1,367
Switzerland	3,668	Kuwait	1,013
Israel	3,345	Saudi Arabia	865
Kuwait	334	Israel	726
Total for Others	163,481		30,464
Others not listed	48,647		2,644
Grand Total	221,597		34,277

Prices Table

Prices Table			
Country:			
Commodity:	Coffee Arabica		
Year:	2001		
Prices in (currency)	rupees	per (uom)	50 kg
Year	2001	2002	% Change
Jan	2951	2631	-10.8%
Feb	2837	2501	-11.8%
Mar	2770	2729	-1.5%
Apr	2823	NA	NA
May	3034	NA	NA
Jun	3076	NA	NA
Jul	2928	NA	NA
Aug	2711	NA	NA
Sep	2751	NA	NA
Oct	2740	NA	NA
Nov	2667	NA	NA
Dec	2657	NA	NA
Exchange Rate	48.7	(Local currency/US \$)	
Date of Quote	07-May-02	(MM/DD/Y Y)	

Note: Auction price for Plantation 'A' at ICTA Bangalore